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Employee benefits: Bosses must lead

Jun 11, 2015 | Stephen Cranston

Employers need to play a bigger part in their retirement funds

EMPLOYERS need to play a bigger part in their retirement funds. This view is at heart of this year's Sanlam Benchmark Symposium on employee benefits (EB).

Viresh Maharaj, the chief marketing actuary of Sanlam EB, says critical decisions are made by employees on their first day of employment, but the retirement options are just one consideration, with medical aid, allowances and insurance all fighting for time and attention.

"People are ill-equipped throughout their careers to make crucial financial planning decisions. Yet we trust these ill-equipped individuals at a particularly stressful point in their lives to make decisions that affect their quality of life."

The survey shows that members value their retirement benefits, with 85% saying they would not opt out from compulsory contributions to their fund and 89% saying they would not reduce their current contribution to their retirement fund.

And far from being wary of the financial markets, 76% believed that their fund portfolio was managed too conservatively. Yet more than half of fund boards of trustees believe 10% or less of their members will be able to retain their current standard of living in retirement.

Maharaj says the employer is best placed to influence this process as it determines the structure of the retirement funding mechanism and has the infrastructure to connect employees with the fund. It is even viewed by employees as the source of truth, according the survey — more members under 50 look for advice from their human resources department than from a financial planner.

Maharaj suggests that as part of the induction, employers give employees a number of home truths, to show that they take the financial wellness of their employees seriously. By learning good financial habits, employees might not be part of the 96% of people who will not build any wealth at all — or of the 80% who will carry a significant amount of debt for most of their working life.

And half of all employees will seek help only when it is too late to affect the retirement outcome.

Maharaj says benefit statements should come with health warnings.

For example, it would warn in red if the replacement ratio (value of monthly pension as a percentage of final salary) was as low as 20%; amber for those too short, but with a chance to catch up; and green for those who will have enough money.

Kobus Hanekom, head of strategy at Simeka Consultants says employers should go one step further than offering retirement benefits.

"If employers do not offer guidance and support, where in the system will we be able to help shape and form our youth and guide them to more sustainable practices?" He says each employee needs a savings plan outside the fund that can be accessed in an emergency. An employer can achieve this through a group plan, with an additional monthly deduction from the member's salary.

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